

# Commodity Report

# Sugar

## Falling surplus estimates but levels remain high

### At a glance

- Sugar prices fell to a six-month low as the global supply glut weighs on prices.
- In the short term, we expect prices to move lower towards USc 9.25.
- However, we believe estimates from the International Sugar Organization indicate the possibility of a recovery in prices over the next 12-18 months.
- Our 9-12 month target stands at USc 17.5.

**Momentum:** Sugar prices (the most active future) slid to a six-month low breaching the important support levels around USc 10.50. The latest data released by the CFTC shows an increase in short positions. We target support levels at USc 9.25 in the short run. Deeper supports at USc 8.50 are unlikely, in our view. A price rally, which is not expected, should be capped at USc 11.2.

**Fundamentals:** A global surplus in sugar has kept price under downward pressure. We expect Brazil's sugar production to rise by 1.5-2mn tons from 31.3mn tons in 2007/08. On balance, the market should be in a surplus of about 7.8mn tons in 2007/08. In the next 12-18 months, the outlook should improve despite the fact that sugarcane production in Brazil is likely to grow at a healthy pace to 550mn tons for this year. The International Sugar Organization said the market should see a smaller deficit of 1-2mn tons in 2008/09. We believe the supply glut and falling prices should induce a fall in acreage. Hence, we expect sugar prices to recover in 2009. We thus keep our 9-12 month target unchanged at USc 17.5. This implies a more than 60% rise in prices.

**Dominic Schnider, analyst, UBS AG**

Performance & Volatility	Sugar			
	-1 m*	-3 m*	-6 m*	- 12 m*
Return	-11.6	-28.9	-1.1	1.3
Volatility	34.2	34.8	34.3	32.2

\* in %; Source: Bloomberg, UBS WMR

Price Outlook (USc/lb)	Sugar			
Spot	3 m Future	2006 Average	2007 Average	2008 WMR Forecast*
11.61	11.32	14.6	9.9	n.a.

\* UBS WMR annual average price Forecast; Source: Bloomberg, UBS WMR

### Agriculture

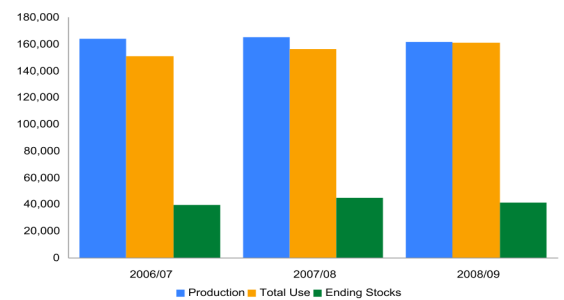
### Sugar

	Spot	-3 m*	- 12 m*	YTD
Coffee	140	-18.13	20.3	0.9
Cocoa	2675.72	-4.99	32.47	26.13
Sugar	11.61	-28.9	1.31	-10.8
Cotton	61.96	-20.57	23.8	-5.92
DJ AIG Soft ER Index	54.05	-27.174	-0.75	-10.558
DJ AIG ER Index	211.021	-2.1	23.09	14.1

\* in %; Source: Bloomberg, UBS WMR

### Narrowing global surplus

Values 1,000 metric tons



Source: USDA

### Sugar Facts

There are two main types of sugar grown in the world: cane and beet. Both yield identical refined sugar products. Sugar cane is a bamboo-like grass grown in semi-tropical regions. It accounts for about 70% of the world's production. Beet sugar comes from the sugar beet plant, which grows in temperate climates and accounts for the balance of sugar production. The largest sugar producer in the world is Brazil. The EU, Russia, the US, China and Japan are among the largest sugar importers globally.

## Appendix

Terms and Abbreviations			
Abbreviation	Description	Abbreviation	Description
COMEX	Commodities Exchange (New York)	NYMEX	New York Mercantile Exchange
CR Coil	Cold Rolled Coil	WTI Crude Oil	West Texas Intermediate Crude Oil
CRB Index	Commodities Research Bureau	Y/MT	Yen (in 000s) per Metric Tone
DJPM Index	Dow Jones Previous Metal Index	USD/BBL	USD per Barrel
ECIM Index	Economist Commodity Industrial/Metals Index	USD/MMBtu	USD per 1 million British Thermal Unit
E/MT	Euro per Metric Tone	USD/MT	USD per Metric Tone
GSC Index	Goldman Sachs Commodity Index	USD/oz	USD per oz, (1 oz = 31.10 grams)
HR Coil	Hot Rolled Coil	nsa	non-seasonally adjusted
LME	London Metal Exchange	mom	month-on-month
MGMI Index	Metallgesellschaft Metals Index	wow	week-on-week
Natural Gas HB	Natural Gas Henry Hub		

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